



STATE OF DELAWARE

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MEMORANDUM

June 15, 2016

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR THE  
APPROVAL OF THE SEMI-ANNUAL ADJUSTMENT TO THE DISTRIBUTION SYSTEM  
IMPROVEMENT CHARGE ("DSIC") PURSUANT TO 26 DEL. C. § 314 (b) (5)  
(FILED MAY 20, 2016 – PSC DOCKET NO. 16-0656)

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On July 9, 2001, the General Assembly and the Governor enacted 26 Del. C. § 314, which permits water utilities to impose a Distribution System Improvement Charge ("DSIC Rate") during the period between full rate case proceedings. This DSIC Rate recovers a return on the water utility's eligible capital improvements and its associated depreciation expenses. Eligible capital improvements include non-revenue producing plant that is in service and not already included in rate base and are:

1. Replacement water plant, such as mains, services, meters, or hydrants that are worn out, deteriorated, or had negative impacts on water quality or reliability of service;
2. Extensions to eliminate dead ends which were negatively impacting water quality or reliability of service;
3. Relocations of facilities due to government actions such as highway relocations;
4. Water plant projects identified in the Governor's Task Force report concerning adequate water supplies; or
5. New or additional plant necessary to meet changes in federal or state water quality standards, rules, or regulations.

This DSIC Rate can be adjusted semi-annually for eligible plant that was placed in service during the 6-month period ending two-months prior to the effective date of the applied-for DSIC Rate. These filings can be made semi-annually by December 1 or June 1 of every year with an effective date of 30 days after the filing. A water utility calculates the DSIC Rate as a percentage of a customer's total water

charges and then adds this charge to the customer's water utility bill. Between rate cases, the DSIC revenues are capped at 7.5% of the amount billed to customers under the Commission-approved rates and charges. However, the DSIC Rate revenues collected by a water utility company cannot exceed 5% of the water utility's total revenues in any 12-month period.

On May 20, 2016, Tidewater Utilities, Inc. ("Tidewater") filed an application ("Application") to adjust its DSIC Rate to 1.89%. Tidewater's current DSIC Rate of 1.06%, effective January 1, 2016, was approved on December 15, 2015 by way of Commission Order No. 8833. On June 17, 2016, Tidewater filed a revised application, as explained in more detail below, seeking approval to increase its current DSIC Rate by a component of 0.84% for a total assessed DSIC Rate of 1.90% with an effective date of July 1, 2016. The proposed increase is based on net additional plant of \$1,514,086 and an associated semi-annual depreciation expense of \$18,049. The DSIC Rate is expected to increase Residential customer bills by approximately \$1.63 per quarter over the current rates that are in effect.

Tidewater originally sought approval to increase its current DSIC Rate by a component of 0.83% for a total assessed DSIC Rate of 1.89%. It was discovered during Staff's audit review of PSC Docket 15-1000, which was Tidewater's DSIC Rate for the period July 1, 2015 – December 31, 2015, that certain Costs of Removal of Retired Plant items were not included in the Accumulated Depreciation Reserve Change. After discussions with Staff, Tidewater recalculated DSIC Revenue Requirement for PSC Docket 15-1000 to include the Costs of Removal that were omitted and found that the DSIC Rate of 0.37% did not change. The only change to PSC Docket 15-1000 as a result of this recalculation was a reduction in the over-collection amount. Since the over-collection of DSIC Revenue from PSC Docket 15-1000 is reconciled in Tidewater's current Application, the Application and accompanying schedules needed to be revised to reflect the correct over-collection and DSIC Revenue Requirement amounts.

Staff recommends that the Commission permit this DSIC Rate to go into effect on July 1, 2016, but have this DSIC Rate remain subject to review, audit, and an annual reconciliation by Staff based on a 12-month period ending December 31, 2016.